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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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Warren D. Hannah
Director – Federal Regulatory Relations
Local Telecommunications Division

EX PARTE

September 26, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: **In the Matter of Federal-State Joint Board on Universal Service**
CC Docket No. 96-45

Dear Mr. Caton:

Today, representatives of Sprint Corporation met with Ms. Kathy Levitz and Mr. Tim Peterson, of the Common Carrier Bureau, to discuss Sprint's position in the above referenced docket. Attached is the handout used in the discussion.

Representing Sprint Corporation were: Jay Keithley, Dick Juhnke, and Jim Sichter. We request that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1), are provided for this purpose. If you have any questions, please feel free to call.

Sincerely,

Warren D. Hannah

Attachments

cc: **Kathy Levitz**
Tim Peterson

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List A B C D E

SPRINT'S PLAN FOR UNIVERSAL SERVICE SUPPORT

September 26, 1996

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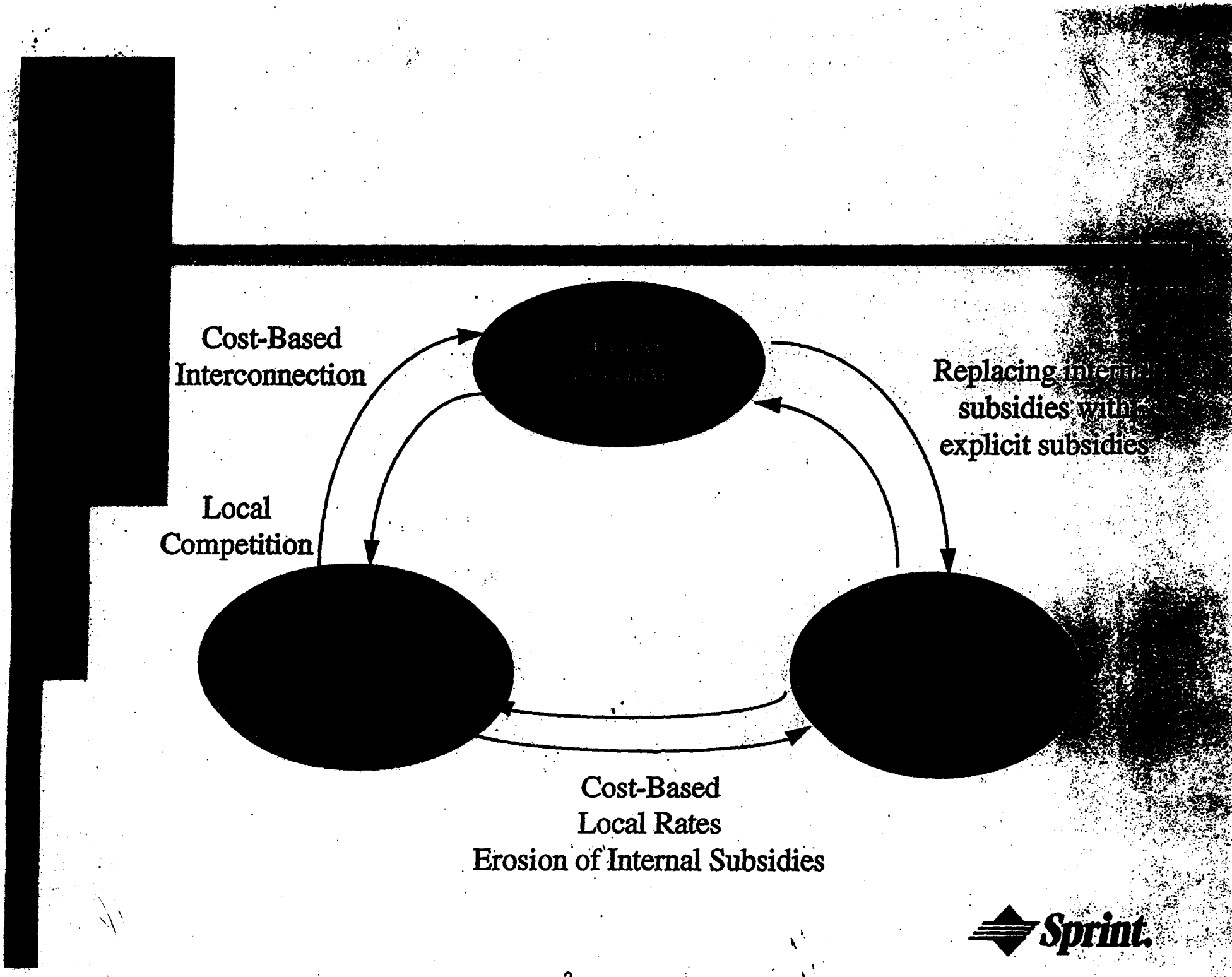
Cost-Based
Interconnection
Replacing in
subsidies with
explicit subsidies
Local
Competition
Cost-Based
Local Rates
Erosion of Internal Subsidies

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ACCESS REFORM AND UNIVERSAL SERVICE

- Unsustainability of internal (Implicit) Subsidies
- Impact of Access Reform

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UNSUSTAINABILITY OF INTERNAL (IMPLICIT) SUBSIDIES

Maintaining Universal Service Support through internal "cross subsidies" is Inconsistent with the Telecom Act, and is Incompatible with, and Unsustainable in, a Competitive Market Place

- Problems with Embedding "Subsidies" in LEC Prices
  - Neither explicit nor targeted
  - Artificially low rates (for the subsidized services) are a barrier to competitive entry
  - Artificially high rates (for the services providing the subsidy)...
    - Provide incorrect price signals to potential entrants
    - Are unsustainable

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Unsustainability of Current Ix Access Rates in a Competitive Environment

- The Telecom Act of 1996 requires incumbent LECs to provide unbundled Network Elements to competitive LECS at cost-based rates
  - Creating an arbitrage opportunity to the extent that the total revenues (Local and Access) generated by an element under the existing rate structures exceed the costs for that unbundled element
  - And, ultimately, undermining the cross-subsidies embedded in existing rate structures

- New Entrants can undermine Access Rates
  - If rate level too high (above economic costs)
  - If rate structures inefficient
    - e.g., per MOU recovery of fixed or NTS costs

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Carrier Common Line Revenues Disaggregated by Customer Usage

Usage Segment MOU/Month	Access Lines	% of Total	CCL Revenue (Inter & Intra)	% of Total	CCL Revenue per Line
Residental					
0	70,447	2.5%	$ -	0.0%	$ -
0-100	767,815	27.2%	$ 673,485	3.1%	$ 0.88
100-200	442,665	15.7%	$ 1,326,621	6.2%	$ 3.00
200-300	324,892	11.5%	$ 1,591,209	7.4%	$ 4.90
300-1000	939,235	33.3%	$ 9,753,185	45.5%	$ 10.38
1000-2000	226,949	8.0%	$ 5,399,230	25.2%	$ 23.79
2000-5000	50,405	1.8%	$ 2,335,103	10.9%	$ 46.33
5000+	2,358	0.1%	$ 348,841	1.6%	$ 147.94
TOTAL	2,824,766	100.0%	$ 21,427,675	100.0%	$ 7.59
Business					
0	193,955	14.3%	$ -	0.0%	$ -
0-100	567,692	42.0%	$ 363,886	3.5%	$ 0.64
100-200	152,528	11.3%	$ 477,805	4.5%	$ 3.13
200-300	94,035	7.0%	$ 493,989	4.7%	$ 5.25
300-1000	235,348	17.4%	$ 2,710,393	25.8%	$ 11.52
1000-2000	67,702	5.0%	$ 1,938,895	18.4%	$ 28.64
2000-5000	31,536	2.3%	$ 1,993,250	19.0%	$ 63.21
5000+	9,617	0.7%	$ 2,534,321	24.1%	$ 263.53
TOTAL	1,352,413	100.0%	$ 10,512,539	100.0%	$ 7.77

Note: Based on November 1995 billing records for United & Centel Florida, CT&T Centel of North Carolina, Ohio, United & Centel Texas, Illinois and Missouri

Local Switching "Subsidy"* Disaggregated by Cusomer Usage

Usage Segment MOU/Month	Access Lines	% of Total	Local Switching (Inter & Intra)	% of Total	Local Switching per Line
Residental					
0	70,447	2.5%	$ -	0.0%	$ -
0-100	767,815	27.2%	$ 316,420	2.9%	$ 0.41
100-200	442,665	15.7%	$ 642,250	5.9%	$ 1.45
200-300	324,892	11.5%	$ 782,421	7.1%	$ 2.41
300-1000	939,235	33.3%	$ 4,947,455	45.1%	$ 5.27
1000-2000	226,949	8.0%	$ 2,839,538	25.9%	$ 12.51
2000-5000	50,405	1.8%	$ 1,268,355	11.6%	$ 25.16
5000+	2,358	0.1%	$ 182,012	1.7%	$ 77.19
TOTAL	2,824,766	100.0%	$ 10,978,451	100.0%	$ 3.89
Business					
0	193,955	14.3%	$ -	0.0%	$ -
0-100	567,692	42.0%	$ 164,100	3.4%	$ 0.29
100-200	152,528	11.3%	$ 222,116	4.6%	$ 1.46
200-300	94,035	7.0%	$ 232,429	4.8%	$ 2.47
300-1000	235,348	17.4%	$ 1,292,699	26.9%	$ 5.49
1000-2000	67,702	5.0%	$ 919,511	19.1%	$ 13.58
2000-5000	31,536	2.3%	$ 898,966	18.7%	$ 28.51
5000+	9,617	0.7%	$ 1,075,655	22.4%	$ 111.85
TOTAL	1,352,413	100.0%	$ 4,805,476	100.0%	$ 3.55

Note: Based on November 1995 billing records for United & Centel Florida, CTYT Centel of North Carolina, Ohio, United & Centel Texas Illinois and Missouri

**Difference between current access rates and local termination proxy of $.02/Mou*

Interconnection Charge (RIC) Disaggregated by Customer Usage

Usage Segment MOU/Month	Access Lines	% of Total	RIC (Inter & Intra)	% of Total	RIC per Line
Residental					
0	70,447	2.5%	$ -	0.0%	$ -
0-100	767,815	27.2%	$ 185,229.71	2.6%	$ 0.24
100-200	442,665	15.7%	$ 391,464.89	5.5%	$ 0.88
200-300	324,892	11.5%	$ 488,814.88	6.9%	$ 1.50
300-1000	939,235	33.3%	$ 3,194,457.44	45.2%	$ 3.40
1000-2000	226,949	8.0%	$ 1,866,694.63	26.4%	$ 8.23
2000-5000	50,405	1.8%	$ 828,011.64	11.7%	$ 16.43
5000+	2,358	0.1%	$ 114,554.23	1.6%	$ 48.58
TOTAL	2,824,766	100%	7,069,227	100.0%	$ 2.50
Business					
0	193,955	14.3%	$ -	0.0%	$ -
0-100	567,692	42.0%	$ 94,732	3.2%	$ 0.17
100-200	152,528	11.3%	$ 131,072	4.5%	$ 0.86
200-300	94,035	7.0%	$ 139,152	4.7%	$ 1.48
300-1000	235,348	17.4%	$ 787,014	26.7%	$ 3.34
1000-2000	67,702	5.0%	$ 565,253	19.2%	$ 8.35
2000-5000	31,536	2.3%	$ 560,256	19.0%	$ 17.77
5000+	9,617	0.7%	$ 667,707	22.7%	$ 69.43
TOTAL	1,352,413	100.0%	$ 2,945,186	100.0%	$ 2.18

Note: Based on November 1995 billing records for United & Centel Florida, CT&T Centel of North Carolina, Ohio, United & Centel Texas, Illinois and Missouri

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Total Access Subsidy Disaggregated

Usage Segment	Access Lines	% of Total	Access Subsidy (Inter & Intra)	% of Total	Access Subsidy per Line
Residental					
0	70,447	2.5%	$ -	0.0%	$ -
0-100	767,815	27.2%	$ 1,175,135	3.0%	$ 1.53
100-200	442,665	15.7%	$ 2,360,336	6.0%	$ 5.33
200-300	324,892	11.5%	$ 2,862,445	7.3%	$ 8.81
300-1000	939,235	33.3%	$ 17,895,097	45.3%	$ 19.05
1000-2000	226,949	8.0%	$ 10,105,463	25.6%	$ 44.53
2000-5000	50,405	1.8%	$ 4,431,469	11.2%	$ 87.92
5000+	2,358	0.1%	$ 645,408	1.6%	$ 273.71
TOTAL	2,824,766	100.0%	$ 39,475,354	100.0%	$ 13.97
Business					
0	193,955	14.3%	$ -	0.0%	$ -
0-100	567,692	42.0%	$ 622,717	3.4%	$ 1.10
100-200	152,528	11.3%	$ 830,993	4.6%	$ 5.45
200-300	94,035	7.0%	$ 865,571	4.7%	$ 9.20
300-1000	235,348	17.4%	$ 4,790,106	26.2%	$ 20.35
1000-2000	67,702	5.0%	$ 3,423,659	18.7%	$ 50.57
2000-5000	31,536	2.3%	$ 3,452,473	18.9%	$ 109.48
5000+	9,617	0.7%	$ 4,277,683	23.4%	$ 444.80
TOTAL	1,352,413	100.0%	$ 18,263,202	100.0%	$ 13.50

Note: Based on November 1995 billing records for United & Centel Florida, CT&T Centel of North Carolina, Ohio, United & Centel Texas, Illinois and Missouri

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Sustainability Example: Carrier Common Line Charge

Recovery of NTS Loop Costs through per MOU Charge

- Results in high users contributing well in excess of the costs of their loops
- Providing incentive for IXCs (or CLECs) to "cap" the access costs of serving these customers by serving them through either non-ILEC facilities or resold ILEC loops

	CCLC Revenue Generated by Customer	*Unbundled Loop Cost*	*Access Savings to IXC Net Revenue gain to CLEC*
Residential Customer	$46.33	$20.00	$26.33
Business Customer	$63.21	$15.00	$48.21

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Comparison between IX Access and Local Interconnection Pricing

	Loop	Local Switching	Transport	Transport RIC
IX Access (Industry Average)	$.00834/MOU	$.00991/MOU	$.00250/MOU	$.00674/MOU
Local Interconnection •(Transport and termination)	Not included	TE-LRIC* (.2c - .4c/MOU)	TE-LRIC*	Not included

*Per FCC 96-98 Order

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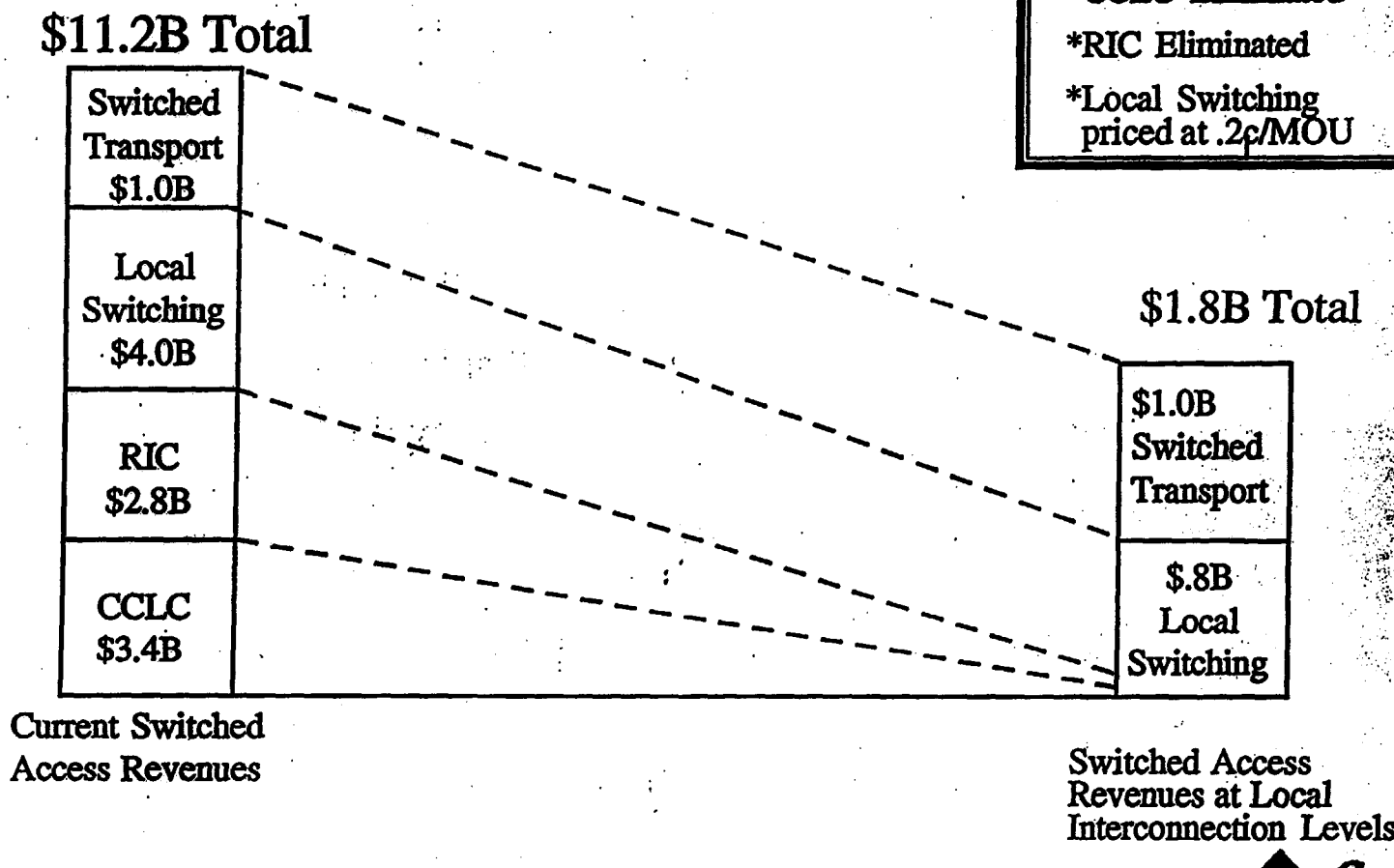
Revenue Impact of Pricing IX Access at Local Interconnection Levels
(Industry Totals Interstate Only)

Assumptions

- *CCLC Eliminated
- *RIC Eliminated
- *Local Switching priced at .2¢/MOU



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SPRINT UNIVERSAL SERVICE PLAN

- Principles
- Services Eligible for Subsidies
- Determination of Subsidy
- Costing Standard
- Eligibility Criteria for Receiving the Subsidy
- Implementation
- Funding
- Administration of Funds

Sprint Plan

Sprint Universal Service Plan -- Principles

- Competitive Neutrality
  - Should Not Impair Competition
    - All carriers should contribute to USF on an equitable basis
  - Subsidy Funding Should be Portable
    - Available to all qualified providers of local service
- Specific (Targeted)
- Predictable
- Eliminate Current Internal (Implicit) Subsidy Flows, as well as replace Existing Explicit Subsidy Funding

SPRINT PLAN
SERVICES ELIGIBLE FOR SUBSIDIES

- Residential Services Only
- Initial Service Definition
  - Local Dial Tone and Ability to Make Local Calls
  - Access to Chosen Long Distance Carrier
  - Access to Emergency Services
  - Single Party Service
  - Touch Tone
  - Annual Local Directory
  - Directory Assistance

SPRINT PLAN
DETERMINATION OF SUBSIDY

- Income Related Subsidies
  - Lifeline, Linkup, and Other Explicit Subsidy Mechanisms to Support Low Income Subscribers Would Continue
- High Cost Area Subsidies
  - Available to Subsidize Basic Residential Service in Areas Where the Costs of Providing Service Exceed National and State Standard for "Affordable" Rate

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SPRINT PLAN
COSTING STANDARD FOR DETERMINING HIGH COST AREAS

- The Benchmark Cost Model Should be the Basis for Measuring the Costs of Providing Services for USF Purposes.
  - The BCM is a Reasonable Proxy for the Economic Costs of Serving a Particular Area
- Advantages of the BCM
  - Based on Objective, Verifiable, Public Data and Accepted Network Engineering Standards
    - Cost Results not Distorted by Historic Accounting and Depreciation Policies
    - Does Not Require Arbitrary Allocations or Dissagregations of Existing Investment to Smaller Geographic Units
    - Avoids Controversy Over Whether Embedded Costs Represent "Efficient" or "Inefficient" Management

SPRINT PLAN
COSTING STANDARD FOR DETERMINING HIGH COST AREAS

Advantages of the BCM (continued)

- Competitively Neutral
  - Subsidy funding (per subscriber) will be the Same for all Service Providers
  - The BCM is a Proxy for the Costs that Any Efficient Provider would Incur in Providing Service to a Particular Area
    - Subsidy Amount Not biased by an Incumbent's Embedded Costs
    - Provides Incentive for Competitive Entry into High Cost Areas
    - Provides Incentive for Efficiency
    - Provides Incentive for Innovation

SPRINT PLAN
COSTING STANDARD FOR DETERMINING HIGH COST AREAS

Advantages of the BCM (continued)

- Disaggregation of Costs By Census Block Group (CBG)
  - More Precisely Identifies Truly High Cost Areas
  - Avoids Competitive distortions Inherent in Using Higher Levels of Aggregation (e.g. exchange or study area) for USF Purposes
    - Basing Subsidies on Averaged Costs will not Provide New Entrants Sufficient Incentives to Serve Those Areas Where Costs Exceed the Average (potentially leading to "cream-skimming")

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SPRINT PLAN
DETERMINATION OF THE AMOUNT OF SUBSIDY

- The Amount of Subsidy Provided for a CBG Would be the Difference Between
  - The National Benchmark Price for Basic Residential Service (i.e., the maximum rate determined to be "reasonable" and "affordable"), and the
  - BCM-Calculated Cost For that CBG
- The National Benchmark Price Should be Set at Least at the National Average Rate for Basic Residential Service in Urban areas, Including the Existing Subscriber Line Charge.
- State USF Plans Could Use the Same Methodology to the Extent State Repricing Does Not Resolve All State-Specific Subsidies
-

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SPRINT PLAN

DETERMINATION OF THE AMOUNT OF SUBSIDY: EXAMPLE

Assume:

Federal Subsidy (per Access Line)

1.	BCM Cost	$30
2.	FCC Benchmark Price	$20
3.	Federal Subsidy (L1-L2)	$10

State Subsidy (Per Access Line

4.	State Benchmark Price	$15
5.	State Subsidy (L2-L4)	$5

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USF FUND SIZE AT ALTERNATIVE NATIONAL BENCHMARK PRICE LEVELS

Summary Model Results
National Total
($) (Billions)

Annual Benchmark Cost	$59,252
Aggregate Support	
at $20	$14,666
at 30	$7,425
at 40	$4,259
Average Monthly Cost	$29.98

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SPRINT PLAN
ELIGIBILITY CRITERIA FOR RECEIVING THE FUNDING

- USF Funding Will be Available to Both Incumbent LECs and New Entrants
- To Qualify for USF Funding, an ETC (Eligible Telecommunications Carrier) Must:
  - Be Willing to Serve the Entire Service Area
  - Offer All of the Services that are Supported by the Fund
  - Use Their Own Facilities or a Combination of Owned Facilities and Resale of Another Carrier's Facilities
- An ETC Will Receive Support Only Where It Provides Service Either Over Its Own Facilities or Over Resold Facilities For Which It Pays Cost-Based Rates
- USF Support Should be Portable (When Subscribers Change Their Local Service Provider, the Subsidy Payment Should Then Go to the New Service Provider)

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Sprint Plan Implementation

- Implementation Steps
  - Each Incumbent LEC Would Quantify its Net Change in USF Support (i.e., USF Support Under the New Plan Less USF Support it Received Under the Existing Plan)
  - The Incremental USF Funding Would Flow Through, Dollar for Dollar, in Reductions in Embedded Subsidies; e.g.,
    - CCLC
    - Transport RIC